



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements Audit Report**

**Snohomish County Fire Protection  
District No. 1  
(Snohomish County Fire One)**

**For the period January 1, 2013 through December 31, 2013**

**Published December 29, 2014**

**Report No. 1013280**





## Washington State Auditor Troy Kelley

December 29, 2014

Board of Commissioners  
Snohomish County Fire One  
Everett, Washington

### Report on Financial Statements

Please find attached our report on Snohomish County Fire One's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR

## TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	4
Independent Auditor's Report On Financial Statements .....	6
Financial Section.....	9
About The State Auditor's Office.....	22

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

## **Snohomish County Fire One January 1, 2013 through December 31, 2013**

Board of Commissioners  
Snohomish County Fire One  
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Snohomish County Fire One, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 24, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

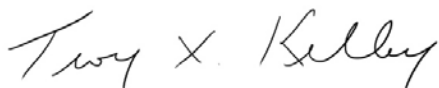
## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

November 24, 2014

# **Independent Auditor's Report on Financial Statements**

## **Snohomish County Fire One January 1, 2013 through December 31, 2013**

Board of Commissioners  
Snohomish County Fire One  
Everett, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of Snohomish County Fire One, Snohomish County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 9.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)***

As described in Note 1, Snohomish County Fire One has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Snohomish County Fire One, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

### ***Basis for Adverse Opinion on U.S. GAAP***

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### ***Adverse Opinion on U.S. GAAP***

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Snohomish County Fire One, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

### ***Other Matters***

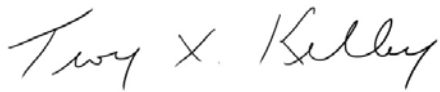
#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

November 24, 2014

## **Financial Section**

### **Snohomish County Fire One January 1, 2013 through December 31, 2013**

#### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013  
Notes to Financial Statements – 2013

#### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	202 Bond Redemption	301 Capital Projects Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	12,100,726	8,521,373	78,757	2,966,504
30880	Beg Fund Bal-Unreserved	4,749,975	4,749,975	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	22,649,575	19,043,332	484,713	3,121,531
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	30,899	30,899	0	0
340	Charges for Goods and Services	12,713,640	12,713,640	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	3,327,951	108,969	267	5,240
<b>Total Operating Revenues:</b>		<b>38,722,066</b>	<b>31,896,840</b>	<b>484,980</b>	<b>3,126,771</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	38,034,738	34,799,766	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>38,034,738</b>	<b>34,799,766</b>		
<b>Net Operating Increase (Decrease):</b>		<b>687,328</b>	<b>-2,902,926</b>	<b>484,980</b>	<b>3,126,771</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	109,372	7,073	0	1,514
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>109,372</b>	<b>7,073</b>		<b>1,514</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	522,281	355	521,926	0
594-595	Capital Expenditures	538,888	0	0	538,888
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>1,061,170</b>	<b>355</b>	<b>521,926</b>	<b>538,888</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>-264,470</b>	<b>-2,896,208</b>	<b>-36,946</b>	<b>2,589,397</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	14,876,819	8,665,728	41,811	5,555,900
50880	End Fund Balance-Unreserved	1,709,411	1,709,411	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		501 Healthcare Self-Insurance Fund
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	534,092
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	3,213,475
Total Operating Revenues:		3,213,475
<b>Operating Expenditures</b>		
510	General Government	0
520	Public Safety	3,234,972
598	Intergovernmental Payments	0
Total Operating Expenditures:		3,234,972
Net Operating Increase (Decrease):		-21,497
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	100,785
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		100,785
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		79,288
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	613,380
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

## FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	610 HRA Trust
308	Beginning Cash and Investments	2,597,027	2,597,027
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	935,726	935,726
380-390	Other Increases and Financing Sources	0	0
510-570	Expenditures	430,150	430,150
580-590	Other Decreases and Financing Uses	0	0
Increase (Decrease) in Cash and Investments		505,576	505,576
508	Ending Cash and Investments	3,102,603	3,102,603

The accompanying notes are an integral part of this Statement.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Snohomish County Fire Protection District No. 1 (SCFD#1) is a special purpose government that provides fire suppression, emergency medical services, public education and fire prevention services. SCFD#1 is supported primarily through property taxes and contract revenue. The District was incorporated on January 1, 1945 and operates under Chapter 52 of the Revised Code of Washington (RCW) and other laws of the state of Washington applicable to fire districts.

### A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the district:

#### GOVERNMENTAL FUND TYPES:

##### General Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. For reporting purposes, the District has consolidated its Emergency Reserve, Law Enforcement Officers and Fire Fighters (LEOFF) I Medical Reserve and its Compensated Absences Reserve into the General Fund.

##### Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest, and related costs on general long-term debt.

##### Capital Project Funds

These funds account for financial resources that are designated for the acquisition or construction of general government capital facilities or other capital assets. For reporting purposes the District includes its Apparatus Reserve, Building Reserve and Equipment Reserve in this Fund.

#### PROPRIETARY FUND TYPE:

##### Internal Service Funds

These funds are used to report any activity that provides goods or services to other funds, departments or agencies of the government, or to other governments, on a cost-reimbursement basis. In 2012 the District established an internal service fund to account for the activities of its Healthcare Self-Insurance program.

#### FIDUCIARY FUND TYPE:

##### Health Reimbursement Trust Fund

This fund accounts for the accumulation of cash which accrues to the benefit of each employee of the district and which is electively used by each employee to purchase qualifying medical services and pharmaceutical products.

## B. Basis of Accounting

SCFD#1 reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the *Cash Basis Budgeting Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is an Other Comprehensive Basis of Accounting (OCBOA) that is prescribed by the State Auditor's Office (SAO) under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

## C. Budgets

The District adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

	<u>Original 2013 Budget</u>	<u>Amended 2013 Budget</u>	<u>2013 Actuals</u>	<u>Positive (Negative)</u>
General Fund				
General Fund	\$34,029,357	\$35,337,066	\$34,260,672	\$1,076,394
LEOFF I Medical Reserve	390,000	390,000	342,098	47,902
Compensated Absences Reserve	60,000	197,350	197,351	(1)
Total General Fund	34,479,357	35,924,416	34,800,121	1,124,295
Bond Fund	521,000	521,000	521,926	(926)
Capital Projects Fund				
Apparatus Reserve	461,857	461,857	0	461,857
Building Reserve	0	132,000	127,753	4,247
Equipment Reserve	171,056	513,706	411,135	102,571
Total Capital Projects Fund	632,913	1,107,563	538,888	568,675
Healthcare Self-Insurance Fund	3,323,500	3,323,500	3,234,972	88,528
Total District	\$38,956,770	\$40,876,479	\$39,095,907	\$1,780,572

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

#### **D. Cash**

It is the District's policy to invest all temporary cash surpluses. The amount is included on the Statement of Fund Resources and Uses Arising from Cash Transactions as net cash and investments.

#### **E. Deposits**

The District's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (PDPC).

The PDPC is comprised of the State Treasurer, Governor, and Lieutenant Governor. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent.

#### **F. Investments – Refer to Note 3 Investments.**

#### **G. Capital Assets**

Capital assets are assets with an individual cost of more than \$1,000 and estimated useful life in excess of one year. The capital assets of the District are recorded as capital expenditures when purchased.

#### **H. Compensated Absences**

Vacation pay may be accumulated up to 768 hours for employees covered under the International Association of Firefighters (IAFF) Local 1828 contract, and is payable upon separation or retirement. Non-represented employees may carry forward up to 1.5 times their annual accrual amount which is payable upon separation or retirement. At December 31, 2013 the District's estimated liability for vacation pay was \$2,001,256.

Upon separation or retirement administrative employees and employees covered under the IAFF agreement with less than 20 years of service receive compensation for sick leave hours at 25% of their accrued bank balance up to a maximum payout of 360 hours. Employees covered under the IAFF agreement with 20 or more years of service receive compensation for sick leave at 35% of their accrued bank balance up to a maximum payout of 504 hours. At December 31, 2013 the District's estimated liability for sick leave pay was \$2,050,782.

#### **I. Risk Management – Refer to Note 6 Other Disclosures, Self-Insurance.**

#### **J. Reserved Fund Balance (Cash and Investments)**

The State Auditor's Office BARS Manual requires the District report the amount of cash and investments not available for spending due to restrictions imposed by external parties (restricted) or internally by a formal Board action (committed) as Reserved Fund Balance. At December 31, 2013 the District reported Reserved Fund Balance on the Fund Uses Resources and Uses arising from Cash Transactions as Reserved Cash and Investments as follows:

General Fund	Operating Reserve	\$8,665,728	Committed
Bond Redemption Fund	Debt Service	41,811	Restricted
Capital Projects Fund	Apparatus Reserve	2,134,811	Committed
Capital Projects Fund	Building Reserve	2,757,139	Committed
Capital Projects Fund	Equipment Reserve	663,950	Committed
Healthcare Self-Insurance Fund	Claims Reserve	613,380	Restricted
		<u>\$14,876,819</u>	

Refer to Note 7 – Other Disclosures, Fund Consolidation for Reporting Purposes for additional information regarding the reservation of fund balance.

Additionally the District reported Reserved Fund Balance in the amount of \$3,102,603 on the Fiduciary Fund Resources and Uses Arising from Cash Transactions.

## NOTE 2 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed as they are received. Property tax revenues are recognized when cash is recorded as received by the County.

Property taxes levied by the County Assessor and collected by the County Treasurer become a lien on the first day of the levy year and may be paid in two equal installments. The first half is due on April 30 and the balance is due October 31. Delinquent taxes are considered fully collectible, bear interest at 12 percent, and are subject to additional penalties if not paid as scheduled.

Washington State law requires Assessors appraise property at 100 percent of its “true and fair market value” according to the “highest and best use” of the property. Taxes levied in 2013 were based on market sales in 2011, except for new construction. New construction values are established as of July 31, 2012.

In 2013, the District levied the following property taxes:

	Assessed Value	Levy Rate/\$1,000	Levy Amount
Fire	\$11,009,170,527	\$1.50	\$16,513,756
EMS	11,009,170,527	0.50	5,504,585
G O Bonds	11,471,432,355	0.04	450,000
Total		<u>\$2.04</u>	<u>\$22,468,341</u>

As of December 31, 2013 the outstanding property taxes receivable for the General Fund and the Bond Redemption Fund were \$523,518 and \$31,499 respectively.

## NOTE 3 - INVESTMENTS

The District’s investments are held by the Snohomish County Treasurer as its agent in the District’s name. At December 31, 2013 the District had \$19,415,529 invested with the State of Washington Local Government Investment Pool (LGIP). The LGIP’s investment objectives are, in priority order: 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest

rate relative to other comparable investment alternatives. LGIP is comparable to a Securities and Exchange Commission regulated Rule 2a-7 money market fund.

General Fund	
General Fund	\$7,361,115
Emergency Reserve	1,994,132
Leoff I Medical Reserve	656,017
Compensated Absences Reserve	203,906
Total General Fund	<u>10,215,170</u>
Bond Fund	33,918
Capital Projects Fund	
Apparatus Reserve	2,134,811
Building Reserve	2,757,139
Equipment Reserve	663,950
Total Capital Projects Fund	<u>5,555,900</u>
Healthcare Self-Insurance Fund	557,810
Health Reimbursement Trust Fund	<u>3,052,731</u>
Total District	<u><u>\$19,415,529</u></u>

## NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2013.

On December 1, 2013 the District made its final principal payment on the 2002 UTGO Bond issue and has no other outstanding debt.

## NOTE 5 - PENSION PLANS

Substantially all District full time and qualifying part-time employees participate in the LEOFF Plan 1 or Plan 2, or the Public Employees Retirement System (PERS) Plan 1, Plan 2, or Plan 3 administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

## NOTE 6- OTHER DISCLOSURES

### Self-Insurance

January 1, 2012 the District implemented a self-insurance plan for medical, vision, and prescription drug claims. The District contracted with a third party administrator, Employee Benefits Management Services, Inc. (EBMS) for claims administration. In 2013 EBMS received 12,666 claims and paid 12,770 claims totaling \$2,745,456. The District accounts for the revenues and expenses of the program in an internal service fund. At December 31, 2013 the District had accumulated \$613,380 or approximately eleven weeks of claims reserve.

The District also self-insures for Unemployment claims. During 2013 the District received and paid 4 claims totaling \$4,478. Unemployment claims are recorded as an expense in the General Fund.

### Subsequent Events

On May 6, 2014 the District's Board of Commissioners approved the contract with IAFF Local 1828 for 2013-2014. The terms of the settlement call for a 4.51% cost of living adjustment for 2013 to be paid retroactively to bargaining unit members to bring District employees up to the average of its comparable agencies. The impact of this adjustment for 2013 is estimated to be \$1,020,050.

### Joint Ventures

The District participates in a single joint venture with other local governments in the "Southwest Snohomish County Public Safety Communications Agency," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the District, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2013, the District owned an equity interest in the SNOCOM joint venture of \$529,117. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219<sup>th</sup> St SW, Suite 200, Mountlake Terrace, WA 98043.

The District also entered into a joint venture with Snohomish County and other local governments in the establishment and operations of the Snohomish County Emergency Radio System (SERS). SERS was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between the District, Snohomish County and nine Snohomish County cities. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. SERS is considered a separate reporting entity. The District's and each participants share of authority is defined by the terms of the enabling charter. Separate financial statements for SERS can be obtained from Snohomish County.

The District has a 3.7% interest in the equity and operations of the venture. The District's share of the assets and fund equity as of December 31, 2013 was \$422,157.

### **Other Post-Employment Benefits**

#### **LEOFF 1 MEDICAL**

The District provides post-employment health care benefits in accordance with RCW 41.26.150. Employees become eligible after age 50 or if disabled while employed, with at least five years of service in the LEOFF 1 System. Currently there are 22 retired, and 4 active firefighters who meet the eligibility requirements. Under authorization of the Disability Board, the District pays medical insurance premiums and medical expenses including long-term care on a pay as you go basis. The retiree does not contribute towards the cost of his medical care. Post-employment health care costs of \$342,098 were paid in 2013.

The District is not required to report under Governmental Accounting Standards Board (GASB) Statement #45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. However for management purposes the District contracted with Northwest Plan Services, Inc. to determine its total LEOFF 1 Benefit Obligation. At December 31, 2012 the District's Total Benefit Obligation was \$7,828,000. The District had \$667,690 in Reserve to fund this obligation.

#### **RETIREMENT HEALTHCARE INCENTIVE**

In November 2011 four individuals took advantage of an early retirement incentive offered to certain employees. The incentive provides for medical, dental, vision and a Health Retirement Account contribution. In 2013 the District paid \$23,795 for this incentive.

### **Fund Reclassification and Consolidation for Reporting Purposes**

In February 2009 GASB issued GASB Statement #54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications. The statement also clarified the definitions of the general fund, special revenue funds, capital project funds, debt service funds, and permanent funds.

As disclosed in Note 1 – Summary of Accounting Policies, the District reports on the Cash Basis as prescribed by the State Auditor's Office (SAO): however, SAO mandated a limited implementation of the guidance issued in GASB #54. The impact of this limited implementation on the District's Financial Statements was that in prior years the District reported its reserves in a special revenue fund. Due to the new definition of special revenue funds this is no longer permitted. The District's reserves are now being reported in the General Fund or in a Capital Projects Fund as described in the table below.

	Total Reserves	Emergency Reserve	LEOFF I Reserve	Comp. Abs. Reserve	General Fund 001	Apparatus Reserve	Building Reserve	Equipment Reserve	Capital Projects Fund 300
BEGINNING CASH AND INVESTMENTS									
Reserved Beginning Cash and Investments	\$ 5,487,877	\$ 1,991,580	\$ 594,091	(\$ 64,299)	\$ 2,521,373	\$ 1,680,965	\$ 362,429	\$ 913,110	\$ 2,966,504
Unreserved Beginning Cash and Investments	0	0	0	0	0	0	0	0	0
Total Beginning Cash and Investments	5,487,877	1,991,580	594,091	(64,299)	2,521,373	1,680,965	362,429	913,110	2,966,504
OPERATING REVENUE									
Taxes	3,801,881	0	415,000	265,350	680,350	439,855	2,520,838	160,838	3,121,531
Miscellaneous	8,694	2,552	697	206	3,454	2,477	1,625	1,138	5,240
Total Operating Revenues	3,810,575	2,552	415,697	265,556	683,804	442,332	2,522,463	161,976	3,126,771
OPERATING EXPENDITURES									
Public Safety	539,449	0	342,098	197,351	539,449	0	0	0	0
Total Operating Expenditures	539,449	0	342,098	197,351	539,449	0	0	0	0
Net Operating Increase (Decrease)	3,271,126	2,552	73,599	68,205	144,355	442,332	2,522,463	161,976	3,126,771
NON-OPERATING REVENUE									
Other Financing Sources	1,514	0	0	0	0	1,514	0	0	1,514
Total Nonoperating Revenues	1,514	0	0	0	0	1,514	0	0	1,514
NON-OPERATING EXPENDITURES									
Capital Outlay	538,888	0	0	0	0	0	127,753	411,135	538,888
Total Nonexpenditures	538,888	0	0	0	0	0	127,753	411,135	538,888
Increase (Decrease) in Cash and Investments	2,733,751	2,552	73,599	68,205	144,355	443,846	2,394,710	(249,160)	2,589,396
Reserved Ending Cash and Investments	8,221,628	1,994,132	667,690	3,906	2,665,728	2,134,811	2,757,139	663,950	5,555,900
Unreserved Ending Cash and Investments	0	0	0	0	0	0	0	0	0

Schedule of Liabilities  
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.12	2002 UTGO/Refunding	12/1/2013	500,000	0	500,000	0
	259.11	Compensated Absences		3,818,834	3,406,180	3,172,975	4,052,039
		<b>Total General Obligations:</b>		<b>4,318,834</b>	<b>3,406,180</b>	<b>3,672,975</b>	<b>4,052,039</b>
		<b>Total Liabilities:</b>		<b>4,318,834</b>	<b>3,406,180</b>	<b>3,672,975</b>	<b>4,052,039</b>

The accompanying notes to the financial statements are an integral part of this schedule

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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